

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05
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R 011600Z DEC 77
FM AMEMBASSY LUXEMBOURG
TO AMEMBASSY BRUSSELS
INFO SECSTATE 6077
AMEMBASSY BONN
AMEMBASSY COPENHAGEN
AMEMBASSY THE HAGUE
AMEMBASSY OSLO
AMEMBASSY PARIS

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BRUSSELS ALSO FOR USEEC

PARIS FOR USOECD

E.O. 11652: NA
TAGS: EFIN, ETRD, LU
SUBJ: BELGIAN FRANC AND THE SNAKE

REF: BRUSSELS 16954

1. ECONOFFICER'S DISCUSSION WITH GOL FINANCE MINSITRY COUNSELOR
RAYMOND KIRSCH SUPPORTS EMBASSY BRUSSELS REPORT OF BELGIAN
NATIONAL BANK'S STRONG ATTACHMENT TO SNAKE. KIRSCH SEES NO
OTHER OPTION TO THE BENELUX NATIONS THAN HAVING THEIR
CURRENCIES LINKED TO A MAJOR WORLD CURRENCY, PARTICULARLY
THAT OF A MAJOR TRADING PARTNER AND SPECIFICALLY GERMANY.
A U.S. DOLLAR-LINK WOULD BE A DISTANT SECOND CHOICE. KIRSCH
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REFERRED OBLIQUELY, HOWEVER, TO MIXED VIEWS IN GERMANY OF
THE SNAKE'S UTILITY.

2. KIRSCH DID NOT RULE OUT THE POSSIBILITY OF A
RE-ALIGNMENT OF THE BELGIAN FRANC-GERMAN MARK RATES.
IN FACT, HE SPOKE WITH ADMIRATION OF THE TIMING AND
SKILL OF THE LAST SNAKE RE-ALIGNMENT. HE IMPLIED THAT

ANOTHER RE-ALIGNMENT WOULD NOT BE A SURPRISE OR A
CAUSE FOR DISMAY IN THE BLEU.

3. COMMENT: A RE-ALIGNMENT OF THE BELGIAN FRANC
VIS-A-VIS THE GERMAN MARK WOULD MAKE SENSE FOR LUXEMBOURG
AS A MEANS TO PRESERVE THE SNAKE AND THE CONVENIENCE
IT PROVIDES RATHER THAN AS AN ASSIST FOR BILATERAL
TRADE WITH GERMANY. THE FRG IS THE GRAND DUCHY'S MAJOR
TRADING PARTNER PROVIDING 36-39 PERCENT OF LUXEMBOURG'S
IMPORTS AND PURCHASING 26-29 PERCENT OF ITS EXPORTS.
EVEN IN NORMAL PERIODS LUXEMBOURG RUNS A TRADE DEFICIT
WITH THE FRG AND THIS SITUATION HAS WORSENER SINCE THE
STEEL CRISIS. STEEL REPRESENTS 63 PERCENT OF LUXEMBOURG'S
1977 EXPORTS TO GERMANY. GIVEN THE EUROPEAN STEEL INDUSTRY'S
PRICE AND DEMAND STRUCTURE, A MINOR CHANGE IN THE FRANK-MARK
RATE IS NOT LIKELY TO IMPROVE PROSPECTS FOR LUXEMBOURG
STEEL SALES TO THE FRG. HIGHER COST IMPORTS FROM GERMANY
WOULD RAISE LOCAL PRICE LEVELS OR PRODUCTION COSTS.
APPROXIMATELY 30 PERCENT OF THE IMPORTS ARE INTRA-COMPANY
PURCHASES OF MINERALS FOR THE STEEL INDUSTRY. LOWENSTEIN

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Message Attributes

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